



ANNUAL REPORT 1975

NATIONAL SEA PRODUCTS LIMITED

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ANNUAL REPORT / 1975

COMPARATIVE HIGHLIGHTS

	1975	1974
Sales and other Revenue	\$97,324,072	\$90,068,509
Net Income (loss)	\$ (1,297,680)	\$ 330,821
Earnings per average number of Common Shares Outstanding	\$ (.94)	\$.15
1975 includes extraordinary loss of \$(.18)		
1974 includes extraordinary gain of \$.22		
Dividends paid per Common Share A	8.0¢	70.5¢
Dividends paid per Common Share B	6.8¢	59.9¢
Cash Flow	\$ 911,425	\$ 3,594,450
Cash Flow per Common Share	\$.54	\$ 2.33
Working Capital	\$ 9,357,345	\$13,954,033
Ratio of Current Assets to Current Liabilities	1.41	1.67
Fixed Assets, net of depreciation	\$36,317,064	\$33,931,127
Common Shareholders' Equity	\$18,420,380	\$19,943,801

Valuation Day Price (December 22, 1971)

Common Shares \$9.50

Preference Shares (5½%) \$3.25

NATIONAL SEA PRODUCTS LIMITED

HEAD OFFICE — DUKE STREET TOWER
SCOTIA SQUARE
HALIFAX, NOVA SCOTIA



*H. P. Connor



*W. O. Morrow

BOARD OF DIRECTORS

- *H. P. CONNOR, Halifax
- FRANK M. COVERT, Q.C., Halifax
- **J. B. ESTEY, Loggieville, N.B.
- *C. R. MACFADDEN, Halifax
- C. J. MORROW, Lunenburg
- *J. B. MORROW, Lunenburg
- *W. O. MORROW, Halifax
- C. C. PRATT, St. John's
- *H. B. RHUDE, Q.C., Halifax
- The Hon. H. J. ROBICHAUD, Fredericton
- **F. W. RUSSELL, St. John's
- DAVID W. SMITH, South Carolina
- **P. J. SMITH, Annapolis Royal
- R. G. SMITH, Halifax
- W. W. SMITH, Lunenburg

*Member of the Executive Committee

**Member of the Audit Committee

SUBSIDIARY COMPANIES

NATIONAL SEA PRODUCTS (U.S.) CORP. LIMITED
Tampa, Florida

NATIONAL SEA PRODUCTS INCORPORATED
Rockland, Me.

NATLAKE LIMITED
Burgeo, Nfld.

McDERMAID AGENCIES LIMITED
Halifax, N.S.

BURGEO LEASING LIMITED
Burgeo, Nfld.

SCOTIA TRAWLER EQUIPMENT LIMITED
Lunenburg, N.S.

OFFICERS

- | | |
|-----------------|---------------------------------------|
| H. P. CONNOR | Chairman of the Board |
| | Chairman of Executive Committee |
| W. O. MORROW | President and Chief Executive Officer |
| C. R. MACFADDEN | Vice President, Finance and Treasurer |
| J. B. MORROW | Vice President, Production |
| I. H. LANGLANDS | Vice President, Development |
| P. R. SMITH | Vice President, Marketing |
| M. L. PITMAN | Comptroller |
| F. D. MCGEE | Secretary and Company Solicitor |

AUDITORS:

Clarkson, Gordon & Co.
Chartered Accountants

TRANSFER AGENTS:

Common Shares
The Montreal Trust Company

Preference Shares
The Company, Secretary's Office
P.O. Box 2130, Halifax, N.S.

BANKERS:

The Royal Bank of Canada
The Bank of Nova Scotia

REPORT OF DIRECTORS

TO THE SHAREHOLDERS

Your Board of Directors herewith submits the Annual Report of the Company, including the financial statements and the report of the Company's auditors, for the fiscal year ended August 31st, 1975.

The year was a very disappointing one, as the difficult problems encountered in the last half of fiscal 1974 continued well into this year, resulting in a substantial loss for the Company.

SALES

Net sales were a record \$97,324,072 compared to \$90,068,509 a year ago, an increase of 8%.

FINANCIAL RESULTS

The net loss for the year was \$1,297,680 compared to a profit of \$330,821 last year.

The poor results can be attributed to several factors, but the principal reason was poor landings during most of the year, which resulted in low volume throughput and hence inefficient plant operations. Other contributing factors were high costs, especially in the trawler operations, and a weak market during the first part of the year.

This year it was considered prudent to adopt the LIFO (last-in first-out) method of determining inventory values at our Tampa plant. The change has decreased the carrying values of inventory by \$582,000 and has reduced the 1975 income taxes payable by \$277,000 and consolidated net income by \$305,000. (Refer to Note 1(c)).

Investment Income, which represents earnings of affiliated Bermuda companies, amounted to \$710,492 compared to \$405,432 last year. Favourable insurance underwriting income, interest income, and profit on foreign exchange, all contributed to a successful year.

EARNINGS AND DIVIDENDS

The loss per common share, after providing for preferred dividends, was 94¢ a share, compared to earnings of 15¢ a share last year. The financial statements do not reflect the enhancement in fully diluted earnings per common share, which would have resulted from an assumed conversion of debentures in 1975, because your Directors felt it was not appropriate to reflect an enhancement in the loss per share from a hypothetical conversion.

Cash flow amounted to 54¢ a share, compared with \$2.33 in 1974.

Due to poor operating results, your Directors reduced the October quarterly dividend on common shares to 8¢ a share from the previous 16¢, and omitted the common dividend entirely in subsequent quarters.

CAPITAL EXPENDITURES AND DEPRECIATION

Although there were no new major capital commitments made during the year, capital expenditures amounted to \$6,271,095. Most of these were carry-overs from the previous year and included new trawlers, extensions to the North Sydney, Lockeport and Tampa plants, as well as improvements to other plants and trawlers.

Depreciation of fixed assets amounted to \$3,752,335 compared to \$3,173,680 last year.

FINANCIAL POSITION

Additions to long-term debt in the form of trawler mortgages amounted to \$2,352,751. A mortgage on the new Lockeport Cold Storage amounted to \$675,000.

After providing \$2,671,452 for current instalment repayments, our long-term indebtedness totalled \$25,487,726.

Working capital decreased by \$4,596,688 to \$9,357,345.

Item 10 (a) in "Notes to Consolidated Financial Statements", refers to Income Tax and is similar to notes on this subject that appeared in our last five reports. Discussions have been carried on with the Tax Department and we are now hopeful that this matter can be resolved before the end of our next fiscal period.

GOVERNMENT ASSISTANT PROGRAMS

With the adverse change in the financial position of the Canadian Fishing Industry, brought about by a sudden and drastic fall-off in catches during a period of rapidly rising costs and a weak market, the Federal Government developed a series of programs designed to assist the industry to ride out the difficult period we are experiencing.

Our Company's share of these programs was \$4,170,000 net of amounts paid directly to fishermen. This amount has been credited to the cost of sales.

It is expected that some form of assistance will continue to be necessary to certain sectors of the industry, until such time as Canada derives the benefits of a well-managed primary resource or a new "Law of the Sea", favouring coastal states, is attained.

PROFIT SHARING FUND

Again we regret to report that the Company was unable to make a contribution to the Employees' Savings and Profit Sharing Fund. This has been disappointing as the Fund is looked upon, by both the Directors and Management, as a most important and beneficial plan for the future welfare of our employees.

OPERATIONS

Fish purchases of 177,670,000 pounds were the lowest for any year since 1964, and represented a decline of 40,000,000 pounds from the previous year. Such sharp declines in landings increase overhead and decrease productivity, making efficient operations impossible. Fortunately there has been an improvement during the latter part of the fiscal year and the current year to date.

As a result of lower landings our trawler fleets sustained heavy losses and seven of the older and inefficient trawlers had to be withdrawn from service. These trawlers were based at Rockland and four of them have since been sold.

The Cape Dauphin, a small steel trawler, was also withdrawn from service during the year and is now undergoing conversion to a scallop dragger.

Once again we had an illegal strike by our St. John's trawler fishermen, which lasted from mid-December to the end of March. This strike had a drastic effect on landings and earnings, as it tied up six of our most efficient trawlers. Operations were finally resumed at the St. John's plant during the month of April, where the situation has since been normal.

In an effort to check our losses brought about by the lower throughput in the plants, special efforts were made to consolidate our operations, and look for new efficiencies where possible. As a result, the wet fish plant at Rockland was closed and the lobster canning operations consolidated during the year. Costs were rigidly controlled in other sectors of the Company, and we continue to look for new areas for further reductions in costs.

Heavy losses were sustained at the two United States plants during the early part of the year but both of these plants are now operating profitably. The extension of our Shrimp Plant has proved to be timely and the extra volume and the efficiencies obtained by this extension are most encouraging. The cessation of trawler operations and the wet fish plant closure at Rockland eliminated a loss operation. The improvement in volume during the latter part of the year at the breeding and cooked fish plant was responsible for the improved performance. The shipyard at Rockland also showed more favourable results.

The new cold storage was completed at Lockeport during the year, but the North Sydney extension is behind schedule and will not be completed until late this fall.

Fishmeal prices remained low during the year and with the production costs rising, mainly due to higher fuel oil prices, the earnings from this important sector were negligible. Profits from By-Products normally contribute considerably to our overall earnings.

No new trawlers joined the fleet during the year but two new vessels will be fishing before December 1975. On their arrival, our current building program will be completed. Replacement of older ships is necessary, and it is a matter of concern that we do not have a continuing building program underway. However, when our financial position improves, this area will have to be given top priority for future capital investment.

INDUSTRIAL RELATIONS

While the past year has been a difficult one in many respects, our Industrial Relations have been satisfactory. We did have a problem with our trawlermen in St. John's, which resulted in a strike but once this was resolved the normal good relations were resumed.

The only major Collective Agreement negotiated during the year was that with the deep sea fishermen at our Nova Scotia plants. This was concluded in late summer and ratified by the membership in mid-October.

Negotiations are presently taking place with the St. John's and Burgeo fishermen and the Burgeo plant workers. Negotiations with the plant workers at our five Nova Scotia Groundfish Plants will soon be underway, as this contract expires December 31st.

DIRECTORS

It is with regret that three of the Company's most senior, and highly regarded Directors, will not be offering for re-election to the Board at this next Annual Meeting.

All three were founders of National Sea Products. They have been Directors since its inception in 1945, and leaders of its operations until their retirement from Senior Management in 1969.

C. J. Morrow was President and Chairman of the Board from 1953 to 1965. Mr. Morrow was one of the founders of the Fisheries Council of Canada, and its first President. He has served the Company and the Industry with great distinction for many years.

R. G. Smith, Vice President and General Manager from 1961 to 1965, and President from 1965 to 1969, was also President of the Fisheries Council, and extremely prominent in fishery affairs until his retirement a few years ago.

W. W. Smith, one of the best known figures in the fisheries since the '30's, has made an invaluable contribution as an engineer and developer of the Company's plants and vessels over the years. He was Vice President of the Company from 1955 to 1970.

The counsel and warm friendship of these men will be greatly missed throughout the Company and particularly by their fellow Directors.

OUTLOOK

It is always difficult to make forecasts in the fishing industry, particularly so during a period of high inflation, where costs are so hard to control. We feel, however, that there will be some improvement in our results in the immediate future, especially if landings continue to improve.

In the longer term, the situation is brighter. We feel that Canada has made considerable progress at recent meetings of the International Commission for Northwest Atlantic Fisheries, in negotiating a cutback in foreign fishing effort and lower quotas. The return to a healthy and prosperous industry is

dependent on a well-managed primary resource, and the beginnings of this now appear to be underway. It also seems reasonably certain that within the next year or two Canada will legally acquire a 200 mile fishing limit off her coasts and be granted complete management rights within this zone.

APPRECIATION

The Board of Directors would like to express its appreciation to all Shareholders, Fishermen and Employees, for their understanding and patience during a most difficult year.

The dedication and co-operation of our Employees and Fishermen have been an inspiration to Management, and with a continuation of this spirit I feel confident that we can eventually overcome the difficulties we are currently facing and return to a profitable position.

On behalf of the Board of Directors,



Halifax, N.S.
October 31, 1975

W. O. Morrow
President and
Chief Executive Officer

NATIONAL SEA PRODUCTS LIMITED

and its subsidiary companies

Statements of Consolidated Income and Retained Earnings

for the year ended August 31, 1975

(with comparative figures for the year ended August 31, 1974)

		1975	1974
STATEMENT OF INCOME	Net sales	\$97,324,072	\$90,068,509
	Cost of sales (note 5)	85,227,210	78,161,921
		12,096,862	11,906,588
	Selling, general and administrative expenses	8,763,192	8,024,292
	Income from operations before the following	3,333,670	3,882,296
	Add:		
	Investment income	710,492	405,432
		4,044,162	4,287,728
	Deduct:		
	Interest on long-term debt	2,294,718	1,238,581
	Provision for depreciation	3,752,335	3,173,680
		6,047,053	4,412,261
	Loss before income taxes	(2,002,891)	(124,533)
	Recovery of income taxes (notes 6 and 10)	975,822	122,000
	Loss before extraordinary items	(1,027,069)	(2,533)
	Extraordinary gains (losses) (note 7)	(270,611)	333,354
	Net income (loss) for the year (note 10)	\$ (1,297,680)	\$ 330,821
RETAINED EARNINGS	Earnings per common share (note 8)		
	Loss before extraordinary items	\$ (.76)	\$ (.07)
	Net income (loss) for the year	\$ (.94)	\$.15
	Cash flow per common share (note 8)	\$.54	\$ 2.33
	Balance, beginning of year	\$13,361,565	\$14,190,563
	Add net income (loss) for the year	(1,297,680)	330,821
		12,063,885	14,521,384
	Dividends:		
	Preference	106,118	106,118
	Common	119,623	1,053,701
		225,741	1,159,819
	Balance, end of year	\$11,838,144	\$13,361,565

See accompanying notes to financial statements

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ASSETS

	1975	1974
Current:		
Cash	\$ 391,375	\$ 277,008
Accounts receivable — trade	9,123,081	7,593,144
Accounts receivable — fishermen, government grants and other	4,467,200	3,693,595
Income taxes recoverable	66,884	379,169
Inventories of marketable products and supplies (note 1)	17,410,363	22,227,483
Prepaid expenses	739,786	629,479
Total current assets	32,198,689	34,799,878
Fixed (note 2)	36,317,064	33,931,127
Other:		
Investments in shares	3,762,969	3,060,208
Sundry investments, government grants receivable and goodwill	344,258	1,399,720
	4,107,227	4,459,928
	<u>\$72,622,980</u>	<u>\$73,190,933</u>

On behalf of the Board:
H. P. Connor, Director
W. O. Morrow, Director

See accompanying no

PRODUCTS LIMITED

(In the Province of Nova Scotia)

Companies

Balance Sheet

1975
(at August 31, 1974)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1975	1974
Current:		
Bank indebtedness	\$ 9,242,567	\$10,694,002
Notes and banker's acceptances payable	2,190,000	282,000
Accounts payable and accrued charges	8,589,379	7,181,447
Income taxes payable	147,946	776,692
Instalments on long-term debt due within one year	2,671,452	1,911,704
Total current liabilities	22,841,344	20,845,845
Long-term debt (notes 3 and 4)	25,487,726	24,984,527
Deferred income taxes (note 10)	3,944,155	5,487,385
Shareholders' equity (note 4):		
Capital —		
385,875 preference shares	1,929,375	1,929,375
1,495,231 common shares	4,846,201	4,846,201
	6,775,576	6,775,576
Contributed surplus	1,736,035	1,736,035
Retained earnings (note 10)	11,838,144	13,361,565
	20,349,755	21,873,176
	<u>\$72,622,980</u>	<u>\$73,190,933</u>

NATIONAL SEA PRODUCTS LIMITED

and its subsidiary companies

Statement of Changes in Consolidated Financial Position

for the year ended August 31, 1975

(with comparative figures for the year ended August 31, 1974)

		1975	1974
SOURCE OF FUNDS	Net income (loss) for the year	\$(1,297,680)	\$ 330,821
	Add charges not represented by cash outlay during the year —		
	Depreciation	3,752,335	3,173,680
	Portion of tax provision (recovery) applicable to future years	(1,543,230)	89,949
	Total funds provided from operations and extraordinary items	911,425	3,594,450
	Increase in long-term debt (other than mortgages)	146,900	9,853,100
	Disposal of fixed assets	132,823	146,354
	Issue of common shares	—	34,000
	Decrease in other assets	352,701	—
	Total funds provided	1,543,849	13,627,904
APPLICATION OF FUNDS	Additions to fixed assets:		
	New trawlers (net of mortgage proceeds, \$2,352,751; 1974, \$961,791)	760,147	229,226
	Other (net of government grants, \$96,000; 1974, \$456,000 and mortgage proceeds, \$675,000; 1974, Nil)	2,483,197	5,002,604
		3,243,344	5,231,830
	Net reduction of working capital on consolidation of effectively controlled company	—	835,807
	Installments on long-term debt due within one year	2,671,452	1,657,458
	Debentures purchased for future sinking fund payments	—	435,000
	Dividends paid	225,741	1,159,819
	Prior years income taxes (note 10)	—	666,734
	Increase in other assets	—	548,223
	Debentures converted to common shares	—	34,000
	Total funds applied	6,140,537	10,568,871
	Increase (decrease) in working capital	(4,596,688)	3,059,033
	Working capital, beginning of year	13,954,033	10,895,000
	Working capital, end of year	\$ 9,357,345	\$13,954,033

See accompanying notes to financial statements

NATIONAL SEA PRODUCTS LIMITED

and its subsidiary companies

Notes to Consolidated Financial Statements

August 31, 1975

1. Summary of significant accounting policies

(a) Basis of consolidation

The accompanying financial statements consolidate the accounts of the Company and all its subsidiaries.

(b) Exchange translation

The financial statements of foreign subsidiaries have been translated into Canadian dollars as follows: current assets and current liabilities at exchange rates prevailing at the end of the year; non-current assets, long-term debt and depreciation provisions on the basis of rates in effect at the date of acquisition; income and expenses (other than depreciation provisions) at average exchange rates prevailing during the year.

(c) Inventory valuation

Inventories are valued at the lower of cost and net realizable value with cost determined principally on a first-in first-out basis.

In 1975, a United States subsidiary adopted the LIFO (last-in first-out) method of determining cost for a substantial portion of their inventory. This method is allowable for income tax purposes in the United States. The change to the LIFO basis has decreased the carrying value of inventory by \$582,000 and has increased 1975 consolidated net loss by \$305,000 after income taxes, or 20.4¢ per share. The change has not been applied on a retroactive basis as the change has effect from September 1, 1974.

(d) Fixed assets

Fixed assets are carried at cost. Depreciation of fixed assets is provided on the straight-line basis at the following rates:

Brick buildings	4%
Wooden buildings and wharves	5%
Machinery and equipment	5% and 10%
Trawlers	8% for 5 years and 6% for next 10 years
Other	10% and 25%

(e) Investments in shares

These investments represent companies in which National Sea Products Limited has a substantial interest and are carried at National's equity in their net assets; current income is recognized on the basis of National's share of their net earnings.

(f) Goodwill

Goodwill arising from the acquisition of a business is recorded at cost and is being written off on the straight-line basis at a rate of 10% per annum. The unamortized balance is \$166,156 as at August 31, 1975.

2. Fixed assets

Major categories of fixed assets are:

	1975	1974
Land	\$ 1,140,276	\$ 1,143,276
Buildings, wharves, machinery and other	36,794,358	34,027,899
Trawlers	25,159,606	25,116,884
	<u>63,094,240</u>	<u>60,288,059</u>
Less accumulated depreciation:		
Buildings, wharves, machinery and other	18,206,718	16,339,170
Trawlers	11,940,472	10,729,460
	<u>30,147,190</u>	<u>27,068,630</u>
	32,947,050	33,219,429
Trawlers under construction	3,370,014	711,698
	<u>\$36,317,064</u>	<u>\$33,931,127</u>

3. Long-term debt

Particulars of long-term debt are:

Secured —

	1975	1974
First mortgage and collateral trust serial bonds:		
6 1/2% Series "A" due 1976-1979	\$ 400,000	\$ 500,000
7 1/2% Series "B" due 1976-1977	1,000,000	1,300,000
	<u>1,400,000</u>	<u>1,800,000</u>

Trawler mortgage loans		
4 1/2% due 1975	—	1,976
4 1/2% due semi-annually to 1976	8,446	19,446
5 1/2% due semi-annually to 1976	11,711	24,111
5 1/2% due semi-annually to 1978	194,976	255,165
4% due annually to 1978	62,584	83,784
5 1/2% due semi-annually to 1979	267,594	340,027
5 1/2% due semi-annually to 1980	176,179	183,527
6% due monthly to 1980	20,491	24,197
5 1/2% due semi-annually to 1981	107,443	158,337
6 1/2% due semi-annually to 1981	36,110	42,128
5 1/2% due semi-annually to 1982	112,645	128,767
6 1/2% due semi-annually to 1983	1,858,397	2,076,884
5% due semi-annually to 1987	368,619	—
9% due semi-annually to 1989	989,415	1,062,705
8 5/8% due semi-annually to 1991	4,288,336	4,562,425
9% due semi-annually to 1994	2,463,570	548,112
	10,966,516	9,511,591

Other:

^xBank indebtedness bearing interest at 1 1/2% above the bank prime lending rate, due 1976 to 1980, secured by a floating charge on

the Company's assets	10,000,000	9,853,100
6% first mortgage bonds due 1974	—	5,000
3% mortgage due annually to 1976	47,727	95,455
6% mortgage due semi-annually to 1976	80,000	160,000
Mortgage due annually to 1977 bearing interest at 1% above bank prime lending rate	550,000	800,000
8 1/2% mortgage due semi-annually to 1984	1,015,517	1,088,244
8% mortgage due semi-annually to 1988	1,272,500	1,367,500
10 1/4% mortgage due semi-annually to 1991	675,000	—
7.15% mortgage due annually to 1996	226,918	231,163
	13,867,662	13,600,462

Unsecured —

6 3/4% Convertible Subordinated Sinking Fund Debentures Series "A" due 1981	2,285,000	2,360,000
Less debentures held for Sinking Fund	360,000	435,000
	1,925,000	1,925,000
Term bank loan bearing interest as 1 1/2% above U.S. bank prime lending rate due \$60,000 U.S. annually to 1975	—	59,178
	1,925,000	1,984,178
	28,159,178	26,896,231
Less instalments due within one year included in current liabilities	2,671,452	1,911,704
	\$25,487,726	\$24,984,527

^xconverted during the 1975 fiscal year from a loan of \$10,000,000 U.S. with interest at 1 1/2% above the base bank lending rate for U.S. dollars in Canada.

Principal and sinking fund payments required in each of the next five fiscal years:

1976	\$2,700,000
1977	3,300,000
1978	2,600,000
1979	2,000,000
1980	8,300,000

4. Shareholders' equity
 (a) Details of share capital are:

	Authorized Shares	Issued and Outstanding			
		August 31, 1975 Shares	\$	August 31, 1974 Shares	\$
5½% Class C cumulative redeemable convertible preference shares of the par value of \$5 each, redeemable at par	600,000	342,760	\$1,713,800	342,890	\$1,714,450
5½% Class D cumulative redeemable convertible preference shares of the par value of \$5 each, redeemable at par	400,000	43,115	215,575	42,985	214,925
Subordinated redeemable preference shares of the par value of \$1 each, redeemable at par	1,025,546	—	—	—	—
Class A convertible common shares without nominal or par value	3,000,000	1,329,726	4,309,782	1,324,092	4,291,311
Class B convertible common shares without nominal or par value	3,000,000	165,505	536,419	171,139	554,890
			<u>\$6,775,576</u>		<u>\$6,775,576</u>

The Class A and Class B convertible common shares are inter-convertible at the option of the shareholder on a one-for-one basis and rank equally with respect to dividends and in all other respects. Similarly, the Class C and Class D convertible preference shares are inter-convertible at the option of the shareholder on a one-for-one basis and rank equally with respect to dividends and in all other respects. Provision is made whereby dividends on the Class B convertible common and Class D convertible preference shares may be paid in the form of tax deferred dividends; in this event, the conditions attaching to the Class B convertible common and Class D convertible preference shares provide that a suitable deduction from the dividends be made for taxes, if any, payable by the Company with respect to such dividends.

- (b) Conversion privileges

Each \$1,000 principal amount of 6¾% Convertible Subordinated Sinking Fund Debentures Series "A" due 1981 is convertible into 57 common shares of the Company up to March 15, 1976.

- (c) Trust Deed restrictions

The Trust Deed securing the First Mortgage and Collateral Trust Serial Bonds and the Trust Indenture securing the 6¾% Convertible Subordinated Sinking Fund Debentures Series "A" contain certain restrictions including, among others, restrictions as to payment of dividends, reduction of capital, and retirement of subordinated debentures in the event of consolidated working capital (without deducting the portion of long-term debt due within one year) being less than \$6,000,000 or consolidated retained earnings being less than \$5,000,000.

5. Cost of sales

During the year the Company received \$4,170,000 from the federal government, net of amounts paid to fishermen, in respect to various assistance programs. This amount has been credited to cost of sales.

6. Income taxes

Losses of a U.S. subsidiary are carried forward in the amount of \$964,000 to be applied to future income in computing the provision for income taxes. The resulting reduction in the provision for income taxes has not been reflected in these consolidated financial statements.

7. Extraordinary gains (losses)

Extraordinary gains (losses) include:

	1975	1974
Gain on disposal of fixed assets, net of income taxes of \$37,000 (1974 \$43,000)	\$ 53,226	\$333,354
Loss on conversion of U.S. term bank loan to Canadian term loan, net of income taxes of \$138,000	(200,037)	—
Loss upon closure of ground fish operation in Rockland, Maine	(187,340)	—
Recovery of U.S. income taxes upon application of prior year's losses	63,540	—
	<u>\$(270,611)</u>	<u>\$333,354</u>

8. Earnings and cash flow per common share

- (a) Net income per common share is computed on the basis of the weighted average number of shares outstanding during the year. Conversion of outstanding convertible debt would be anti-dilutive.

- (b) Cash flow per common share is calculated based on the total funds provided from operations and extraordinary items less preferred dividends divided by the average number of common shares outstanding during the year.

9. Commitments

- (a) Rentals aggregating approximately \$250,000 per annum through 1993 are payable under long-term leases for facilities in Lunenburg.
- (b) The Company has approved an Executive and Management Pension Plan for personnel designated by the Company. Estimated past service costs of \$445,000 are being funded and amortized by the Company in equal annual amounts to 1990.

10. Contingencies

- (a) As noted in previous years, the Department of National Revenue has issued notices of reassessment for the period 1966 to 1972 inclusive. The Company's professional advisors are of the opinion that the reassessments should be appealed and that no provision for additional income taxes is necessary in the financial statements. Accordingly, the Company has filed appeals in the Federal Court of Canada in respect to 1969 and Notices of Objection relative to 1970, 1971 and 1972 and has not made a provision for income taxes relative thereto.

If each of the various principles on which the reassessments are based was to be upheld in its entirety, the effect would be to increase the provision for income taxes and to reduce net income by approximately \$400,000 for 1975, \$400,000 for 1974, \$400,000 for 1973, \$400,000 for 1972, \$400,000 for 1971, and \$2,900,000 for prior years.

Because of the availability of capital cost allowances, only \$1,592,376 has become payable for reassessed income taxes. This amount has been paid and deferred income taxes reduced by a corresponding amount. In respect to amounts which may be reassessed for 1973, 1974, and 1975, \$1,075,000 would become currently payable, based on present availability of capital cost allowances. The balance of taxes would become payable only as and when recorded depreciation exceeds capital cost allowances now available and becoming available from future capital expenditures.

- (b) Guarantees by the Company of indebtedness of suppliers (including fishermen's notes and mortgages) amount to approximately \$235,000.

11. Statutory information

Remuneration of Directors and senior officers was \$372,000 (1974 — \$343,000).

AUDITORS' REPORT

To the Shareholders of
National Sea Products Limited:

We have examined the consolidated balance sheet of National Sea Products Limited as at August 31, 1975 and the statements of consolidated income, retained earnings, and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to successful appeal from the reassessments of income tax described in note 10 to the financial statements, these consolidated financial statements present fairly the financial position of the Companies as at August 31, 1975 and the results of their operations and changes in their financial position for the year then ended, in accordance with generally accepted accounting principles which, except for the change, with which we concur, in the method of valuation of certain inventories as referred to in note 1 to the consolidated financial statements, have been applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.
Chartered Accountants

NATIONAL SEA PRODUCTS LIMITED

and its subsidiary companies

Comparative Financial Information for 1971-75

(all amounts are expressed in thousands, except as indicated +)

	1975	1974	1973	1972	1971
Working Capital	\$ 9,357	13,954	10,895	7,962	10,513
Plant, Equipment, Trawlers and other					
Fixed Assets after Depreciation	\$ 36,317	33,931	28,484	25,504	19,899
Total Assets	\$ 72,623	73,191	61,292	54,779	48,188
Accumulated Deferred Income Taxes	\$ 3,944	5,487	6,064	3,978	2,979
Long Term Debt	\$ 25,488	24,985	15,519	13,143	12,220
Shareholders' Equity:					
Preference Shares	\$ 1,929	1,929	1,929	1,929	1,929
Subordinated Preference Shares	\$ —	—	—	939	—
Common Shares	\$ 4,846	4,846	4,812	4,812	4,812
Contributed Surplus	\$ 1,736	1,736	1,138	1,138	1,071
*Retained Earnings	\$ 11,838	13,362	14,191	11,261	10,226
Total Shareholders' Equity	\$ 20,349	21,873	22,070	20,079	18,038
Additions to Plant, Equipment, Trawlers and other Fixed Assets during the year	\$ 6,271	6,194	7,667	7,715	3,739
Fish Landings (lbs)	178,000	217,000	242,000	196,000	192,000
Herring Purchased for Reduction (lbs)	4,000	5,000	17,000	52,000	98,000
Net Sales	\$ 97,324	90,069	89,409	69,319	63,363
Depreciation	\$ 3,752	3,174	2,903	2,046	1,871
Income Taxes	\$ (976)	(122)	3,108	983	718
Net Income	\$ (1,298)	331	3,816	1,804	1,678
Dividends on Preference Shares	\$ 106	106	184	111	112
Dividends on Common Shares	\$ 120	1,054	702	657	535
Earnings Retained in Business for Expansion	\$ (1,524)	(829)	2,930	1,035	1,031
*Earnings per average number of Common Shares Outstanding	+ \$(.94)	\$.15	\$2.43	\$1.13	\$1.19
Common Dividends paid per share — Class A	+ 8.0¢	70.5¢	47¢	44¢	42¢
Common Dividends paid per share — Class B	+ 6.8¢	59.9¢	39.9¢	—	—
Earnings as a Percentage of Sales	+ (1.3)%	0.4%	4.3%	2.6%	2.6%
Cash Flow per average number of Common Shares Outstanding	+ \$.54	\$2.33	\$6.49	\$3.17	\$3.04
Number of Common Shares Outstanding at Year End	+ 1,495,231	1,495,231	1,493,293	1,493,293	1,493,293

*1975 includes extraordinary loss of \$(.18) per common share

1974 includes extraordinary gain of \$.22 per common share



National Sea Products Limited
Halifax, Nova Scotia